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NASA Procedural Requirements

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Request Notification of Change (NASA Only)

Subject: Administration of Property in the Custody of Contractors**Responsible Office: Logistics Management Division**[| TOC](#) | [Preface](#) | [Chapter1](#) | [Chapter2](#) | [Chapter3](#) | [Chapter4](#) | [Chapter5](#) | [Chapter6](#) | [Chapter7](#) | [Chapter8](#) |
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Chapter 5. Property Management System Audit

5.1. Purposes of Audits

5.1.1 Establishing the Adequacy of Contractor Performance 5.1.1.1 Through the PMSA, the PA evaluates the contractor's management (control, use, preservation, protection, repair, and maintenance) of GP in its possession. The contractor's performance and the PA's evaluation criteria shall be consistent with the contractual requirements, as well as with VCSs, ILPSs, and CCPs for property management that have been determined to be adequate for the performance of the applicable contracts. Determination of adequacy of VCS, ILPSs, and CCPs may occur either as part of the award process or in response to a contractor's reported changes. Subjective evaluations may include outlining the scope of the system analysis performed, summarizing the processes and process segments or outcomes audited, and examining any deficiencies identified for possible negative trends. 5.1.2 Ensuring Adequate Management Control 5.1.2.1 The contractor's use, stewardship, and management of Government assets in no way negates NASA's responsibility to provide reasonable management controls to protect the assets, preserve them, ensure their proper use, and, when no longer required, dispose of them appropriately. While the contractor retains the principal stewardship responsibility and their property standards, practices, and procedures serve as the principal management control, the PMSA provides the management control and oversight audit needed to ensure the public that NASA is appropriately managing the resources assigned to administer the contract. 5.1.3 Ensuring Appropriate Accounting for Property 5.1.3.1 Tests of the contractor's records, physical inventory, loss identification and reporting, and the various transactions within the contractor's PMSA should establish the accuracy of those records and transactions. A primary function of any property records system is to ensure there are appropriate records for all property and that the property on record exists. As such, tests within the PMSA should establish reasonable assurance of existence of property and completeness of records for accountability and accounting purposes. Documentation is audited to ensure that records are properly supported. Transactions are audited to ensure that processes are documented appropriately. 5.1.4 Ameliorating Risk to the Government 5.1.4.1 While providing property to a contractor increases risk to the Government, the PMSA should reduce risk by identifying areas of contract noncompliance or inadequate processes or actions, as well as any incidence of fraud, waste, or abuse. The process of audit and identification and correction of deficiencies provides a method for continuous improvement of process and standards.

5.2 Risk Assessment

5.2.1 The availability of personnel and travel resources shall be effectively managed and applied to those situations posing the greatest risk to NASA, its mission, and the public resources entrusted to the Agency.

5.2.1.1 As such, risks shall be identified and their consequence incorporated into decisions regarding the resources to be assigned to the PMSA.

5.2.2 Method of Risk Assessment

5.2.2.1 IPOs shall collect information on the contractor and the contracts awarded to that contractor sufficient to perform an evaluation of risk. Risk should be based on the contractor's entire activities at a place of performance

rather than a single contract perspective. IPOs should refer to existing contractor records within NESS to determine if there are other NASA contracts performed at a contractor's place of performance, including all cage codes associated with that place of performance and include property from the other Centers within their risk determinations.

5.2.3 Criticality of Risks

5.2.3.1 Table 5-1 provides a matrix that relates different evaluation factors to levels of risk. IPOs should use this table to evaluate the risk associated with a contractor and particular place of performance. IPOs should assign the highest level of risk related to any of the evaluation factors identified for a contractor and place of performance. For example, if there is a change to a contractor's management personnel, a high risk should be assigned regardless of whether any of the other situational aspects fall within the high-risk category.

5.2.4 Application of Risk to the PMSA Schedule

5.2.4.1 Table 5-1 provides an audit frequency associated with risk level. IPOs should use the risk frequency to determine how often an audit shall be scheduled at the contractor's place of performance.

5.2.5 Exceptions

5.2.5.1 IPOs may increase risk levels when their knowledge of problems with contractor processes or activities provides sufficient justification.

Table 5-1 Risk Assessment Matrix

RISK CATEGORY	MINIMAL	LOW	MEDIUM	HIGH
EVALUATION FACTOR				
Value of Provided/Scheduled to be Provided Property	Under \$100,000	Under \$1 Million	Over \$1 Million	\$10 Million or Greater
Individual Items > \$100K	None	None	Less than 100	Greater than 100
New Contractor	No	No	No	Yes
Last PMSA	N/A	Adequate or returned to Adequate with No Unresolved Deficiencies	Adequate or returned to Adequate with Unresolved Deficiencies	Inadequate
Loss	None	Minimal/Relieved	Significant/Relieved	Significant/Not Relieved
Change in Personnel	N/A	None	Significant Property Personnel	Management Personnel or Property Manager
Process/Plan Change	N/A	None	Insignificant	Significant
New Awards	Single Contract	Less than 3 at Place of Performance	3 to 5 at Place of Performance	More than 5 at Place of Performance
Progress/Performance Based Payments	Yes	No	Yes	No
Program Impact	None	None	Schedule/Cost	Safety
Audit Frequency	Inception and If Terminated for Cause	Annual	Inceptionâ?"Then Every 2 Years	Annual

Audit Type	Desk	Desk	All Applicable Outcomes	All Applicable Outcomes, In-Depth Physical Inventory, Records and Reports
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5.3 Establishing the Annual Audit Schedule

5.3.1 The PA, working with the Center IPO, shall establish the annual schedule of PMSAs.

5.3.1.1 The schedule shall allow for the performance of audits in accordance with the audit frequencies cited in the Risk Assessment Matrix in Table 5-1.

5.3.1.2 The schedule for all audits to be conducted by NASA PAs, including audits to be conducted by COs, shall be forwarded to the NASA Contract Property Program Manager no later than November 30 of each fiscal year.

5.4 Pre-Audit Communications With the Contractor

5.4.1 The FAR Government Property clause provides that the Government shall have access, at reasonable times, to the contractor's and their subcontractors' premises and records for the purpose of establishing the effectiveness of the contractor's plans, systems, practices, and procedures.

5.4.1.1 The PA shall notify the contractor of their intent to conduct a PMSA.

- a. The notification shall provide the times and dates of the proposed audit, and to the degree that they may be available within the PA's schedule, alternate times and dates.
- b. The notification should request any necessary data in a form that would be useful to the PA to identify appropriate populations, generate appropriate samples, and otherwise provide information in support of the audit.
- c. The notification also should request any information on the contractor's self-assessment practices and the result of any external independent audits involving the contractor's property systems and practices.
- d. The PA should prepare (select) all samples prior to the audit. However, to preserve the integrity of the sample, samples shall not be provided to the contractor.

5.4.1.2 Within the PMSA, the PA may request and audit support documentation including, but not limited to:

- a. The contractor's internal audit work-papers and reports.
- b. VCSs, ILPSs, and the contractor's procedures as part of its Property Management System.
- c. Contracts and associated modifications.
- d. Correspondence and other official records relating to GP.
- e. Past PSMA's to identify systemic deficiencies and associated corrective action plan(s).
- f. Reports of loss of GP, any report register, and loss case files.
- g. Findings from other Government or third-party audits involving GP.

5.4.1.3 After establishing the firm dates for the audit and after receipt of the requested materials, the PA shall prepare an entrance conference presentation. The presentation should include:

- a. Contact information for the PA and any supporting personnel.
- b. Dates and times of the audit.
- c. Tentative dates for:
 - (1) Discussion of interim findings and recommendations.
 - (2) A draft report (if required).
 - (3) The final report.
- d. A tentative schedule for receipt of contractor response and a corrective action plan, if needed.
- e. A description of the audit, including a list of the outcomes of the property system to be audited.
- f. A summary of the techniques and methods that will be used to test the outcomes.

5.4.1.4 The PA may, at their discretion, provide a copy of the entrance conference presentation to the contractor prior to the date of the conference.

5.5 Contractor Self-Assessments

5.5.1 Participation in Contractor Self-Assessments

5.5.1.1 The PA may participate as part of or serve as a control point in the contractor's self-assessment program.

5.5.2 A Use of Contractor Self-Assessments

5.5.2.1 The PA may build upon or incorporate the results of the contractor's assessment process in conjunction with, but not in lieu of, the performance of the PMSA. However, due to the lack of independence, contractor self-assessments may not be used exclusively as a substitute for the PMSA or for a particular property test or segment.

5.5.2.2 The PA shall test contractor performance and compliance in accordance with the procedures in this chapter and Generally Accepted Government Accounting Standards to provide an independent verification of the contractor's findings and to provide reasonable assurance of the adequacy of the contractor's property management practices and systems.

5.5.3 Review of Proposed Standards and Practices
5.5.3.1 The PA shall review the contractor's standards submitted at the time of proposal to determine whether those standards will serve as indicators of the adequacy of contractor performance.

5.5.3.2 The PA shall review the contractor's proposed practices to determine whether the actual operations of the contractor are in compliance with those practices.

5.6 Testing Contractor Performance

5.6.1 Evaluation and Identification of Applicable System Segments

5.6.1.1 The PA shall review past PMSAs and the contractor's Property Management Systems, plans, processes, procedures, practices, and standards to determine the segments of the property system that will be subject to audit.

5.6.1.2 If the contractor meets the qualifications for a "major contractor" as determined by the Center Deputy Chief Financial Officer, the PA shall, at minimum, audit the records, physical inventory, and reporting segments of the property system annually without regard for past performance.

5.6.1.3 The PA shall document their rationale for evaluation or nonevaluation of particular segments of the property system.

5.6.2 Test Methods

5.6.2.1 Population Selection

a. Within each segment of the property system, the PA shall select an appropriate population for audit.

(1) Definition of the population shall be carefully performed. Improper population selection may render the results obtained from sampling techniques unsupportable. Also, improper population selection may cause a random sample to be invalid as it may not represent the entire population and it may not be possible to generalize the results of sample tests to the full population.

(2) The PA shall determine the purpose of the test and ensure that the population is fully inclusive of all situations, documents, records, or items associated with the test area.

(3) The PA shall not include items in the population that are dissimilar or unrelated to the process being tested. For example, all receiving reports could be considered to be a population if the test involves validation of documentation supporting the receiving process and the contractor's processes call for the creation of receiving reports to document the transaction. Conversely, a purchase document may provide proof of acquisition but not necessarily provide proof of receipt. As such, it should not be included in the population.

5.6.2.2 Full Population Testing

a. PAs should evaluate the need for testing of an entire population as opposed to sampling. Full population testing shall be employed when the nature of the test is critical to safety or health; when inventory is critical to the execution of the contract; or when items to be tested are of a specialized nature (e.g., national security items) and, therefore, necessitate absolute control. Full population testing should also be used when populations are small and the cost to determine and generate random samples exceeds the cost to evaluate the entire population.

5.6.2.3 Sample Types

a. Judgment Samples

- (1) Judgment samples may be used to evaluate process segments that do not lend themselves to any other methods of sampling.
- (2) Prior to using judgment samples, the PA shall evaluate whether it is possible to use random samples.
- (3) If the PA determines that random, statistical sampling is not applicable or cannot be used, they shall document the file with their rationale.

b. Purposeful Samples

- (1) Purposeful samples are used when a specific sample is selected to test for the possible systemic impact of a critical or substantial condition or situation and there is suspicion of or reports of significant noncompliance.
- (2) The PA should limit the use of purposeful sampling to situations in which they believe the severity of the situation is likely to result in a systemic deficiency.
- (3) Purposeful samples may also be used in root cause analysis and related efforts after establishing the inadequacy of a property segment through random statistical sampling.

c. Random Statistical Samples

- (1) The PA shall select a sample size sufficient to support generalization to the entire population.
- (2) To support the adequacy of the statistical sample, the PA shall, at minimum, use a double sampling plan where the Government's risk may not exceed 10 percent (a 90 percent confidence level) except for slight variations due to changes in population sizes.
- (3) Use of automated systems.
 - (a) Use of automated systems to determine sample size and to generate the random sample is encouraged. Automated systems help control cost and increase the efficacy of the sample.
 - (b) PAs who intend to use automated systems should request electronic versions of the contractor's records, sufficient to generate the sample, as part of the initial PMSA data collection effort.
- (1) Various tools exist to determine an appropriate sample size. The DCMA Property Administration Procedural Guidance provides a double sampling table for this purpose at: [http://guidebook.dcmamil/34/SamplingTables\(1\).pdf](http://guidebook.dcmamil/34/SamplingTables(1).pdf).
- (2) Automatic Generation of Random Samples. Part of NASA's standard office suite, Microsoft Excel, contains a random number generating function within its Data Analysis ToolPak that can be used for this purpose. PAs should have this ToolPak installed within the Excel spreadsheet program on their computers. The Sample function can generate a list of random numbers from typical property data elements, such as unique identification numbers, NASA Equipment Control Numbers, or locations.

5.6.3 Determination of Anomalous Errors

5.6.3.1 Anomalous errors are those that are either within the sample's expected error rate or are not repeated in succeeding samples when double sampling techniques are used. While anomalous errors are not normally indicative of systemic deficiencies, PAs shall note anomalous errors and, if sufficiently serious as to warrant further action, determine the cause of the error and require its correction.

5.6.4 Determination of Systemic Deficiencies

5.6.4.1 PAs shall retest to determine whether errors found within an initial sample are repeated. If the errors are repeated, it should be assumed that segment of the contractor's system is deficient in that it has not produced the outcome required by the property clause or the standards and practices within the contractor's property management plan.

5.6.4.2 A deficiency or deficiencies should be considered systemic when, in the professional determination of the PA, the deficiency or deficiencies are deemed sufficiently significant to risk loss of GP; cause delays to mission schedule; effect the safety of personnel or the public; or significantly increase contract cost.

5.6.4.3 The PA shall perform or require the contractor to perform a root cause analysis to determine the scope and source of the deficiency and require the contractor to provide a corrective action plan.

5.6.5 Correction of Deficiencies and Errors Identified During Evaluation

5.6.5.1 Systemic deficiencies shall be reported to contractor's management personnel upon discovery. Correction of systemic deficiencies should not be postponed until the completion of the report, but acted on immediately.

5.6.5.2 Systemic deficiencies shall be noted in the report along with the corrective action taken, should that action be completed during the conduct of the PMSA.

5.6.5.3 Anomalous errors corrected during the PMSA may be documented with summary notations to the report.

5.6.6 Outcome of Segment Testing

5.6.6.1 Evaluation of Acquisition

a. Acquisition is tested to ensure that it is limited to those quantities authorized by the contract. Acquisition includes any property acquired, constructed, fabricated, or furnished by the Government or via other methods. Random sampling techniques should be utilized unless acquisition activity is so limited as to warrant a full population audit.

b. The population for this process may consist of all acquisition and fabrication transactions, as evidenced by the documents of those transactions for the past year or since the last PCSA, whichever is more recent. The PA shall audit the procurement, requisitions, purchase orders, subcontracts, fabrication, or transfer documents. These documents may serve as the appropriate population for testing acquisition.

c. The PA also may audit the acquisition cost vouchers submitted to the CO for payment to determine whether the dollar value of direct charges for property against the contracts are appropriate for the circumstances of the contract.

d. The PA should also audit bills of materials or material requirements lists to determine if the quantities of acquired material are appropriate or excessive. PAs should consider minimum buys, bulk purchases, shelf life, and similar conditions that warrant acquisition of quantities that differ from specific contract requirements. Further, the PA should evaluate the contractor's performance in light of their proposed practices, procedures, and standards.

e. Federal Standard Requisitioning and Issuing Procedures (FEDSTRIP) and Military Standard Requisitioning and Issuing Procedures (MILSTRIP) acquisition audits shall be treated as separate populations under the process of acquisition due to the unique requirements of the MILSTRIP process, e.g., form and format, authority needed to use the MILSTRIP system including priority codes. See DOD 4000.25-1-M, Military Standard Requisitioning and Issuing Procedure, for further guidance.

(1) The population shall consist of all FEDSTRIP/MILSTRIP requisitions made by the contractor for the appropriate timeframe.

f. The PA shall audit documentation of equipment acquisitions to ensure contractor compliance with the requirements of NFS clause at 1852.245-70, Contractor Requests for Government Provided Equipment.

(1) Contractors should have written CO approval to acquire items of equipment that were not approved as part of the initial award.

(2) Contractor requests should be audited to ascertain that they were submitted no later than 30 days prior to the acquisition date.

(3) When contractors are authorized to self-screen for available NASA inventory or the excess of other agencies, the PA shall audit documentation to determine if that screening has taken place and that the results of that screening are supportable.

g. The PA shall review all vehicle records to ensure that they were requested and approved in accordance with the requirements of NFS 1851.2 and NPR 6200.1.

(1) In addition, contractors are required to obtain the approval of the NASA Transportation Manager prior to the acquisition of additional vehicles.

(2) The PA shall test vehicle acquisition approval documents to ensure the approval was received prior to acquisition.

5.6.6.2 Evaluation of Receiving

a. The contractor should have documentation of receipts, either in manual or electronic form. These documents constitute the population for evaluation of receiving practices.

b. The contractor should also have documentation of identified discrepancies and their resolution. Receiving records constitute the initial entries into property record or provide evidence that the property was issued directly to work in progress.

c. At minimum, the PA shall audit receiving documentation and practices to ascertain the following:

(1) Whether the receiving activity ensured that quantities ordered were received and whether the condition of acquired item(s) meets the acquisition specifications.

(2) Whether receiving documentation provides evidence of corrective actions in the case of discrepancies.

(3) Whether receiving documentation provides evidence of prompt processing activity as delays in the receiving process can effect overall production.

(4) Whether receiving documentation provides evidence that items were promptly entered in property records or issued to work in progress.

d. Evaluation of Identification

(1) The PA shall test to ensure the contractor has established a process for the identification of GP upon receipt or fabrication (See FAR 52.245-1(f)(1)(ii) and NFS 1852.245-74). The basic objective is to determine the effectiveness of the contractor's system of physically identifying GP.

(2) A thorough analysis would validate that the assigned numbers are recorded on all applicable documents; marked on the particular components or parts of GP; and marks are readable using appropriate equipment and are, when required, human readable.

(3) The PA may use the same population to test the process of identification as used in testing the process of "records" of GP. The testing of this process may be accomplished during the testing of other process segments, e.g., when testing "Records of all Government Property" by establishing two column headings on the PA's worksheets reflecting "identification number on record" and "identification number on asset."

(4) To ensure that records accurately reflect items on the floor, the PA also shall perform a "property to records" audit using a separate population as discussed in evaluation of records, section 5.6.6.3.

(5) The PA may also use a separate population for testing the process of identification. This would entail using the population used in testing receiving and then ensuring that the items received have been identified. The PA may consider alternating these two methodologies, so as to ensure broad coverage of this process requirement.

5.6.6.3 Evaluation of Records

a. The PA shall audit the contractor's records systems to ensure that the records are established and maintained according to their proposed property management plan, system, practice, and/or standards.

b. In addition, the FAR 52.245-1 "Government Property" clause requires contractors to retain records sufficient to support audits and sets forth minimum requirements for data elements. The PA shall ensure that the contractor's property records contain the appropriate data elements.

c. While some data elements required within the property clause, e.g. description, are applicable to all classifications of property, some data elements may not be. For example, quantity received or fabricated and quantity on hand are applicable to material items. However, equipment items, in particular serially numbered equipment items, are tracked as individual units; therefore, the quantity will always be one. Conversely, a unique item identifier or equivalent and date placed in service are applicable to serially numbered equipment items, but not to material. Disposition, posting reference, and transaction information are only applicable when those activities take place.

d. Care must be taken in the selection of populations for testing. The PA may determine it appropriate to test the property using stratified statistical samples in which different values or types of property are tested separately from other types. Differentiation may be based on property value, such as capital valued property as opposed to lower valued property. Differentiation may be based on the physical makeup or use of the property. For example, weapons or property that may propose a hazard to persons or property or when property criticality effects mission performance are subject to a higher level of control should be tested using a stratification based on these factors.

e. Records should be tested to determine whether transactions are posted in a timely manner. Timeliness of posting of transactions should be defined in the contractor's system plan, standards, and/or practices. PAs should test to determine if transactions are posted accordingly.

f. Test of the accuracy of quantity and location shall evaluate:

(1) Existence of property on record.

(2) Whether items on record are in correct locations and quantity (record to floor checks).

(3) Completeness of records, testing whether items on the floor have corresponding, and appropriate records (floor to record checks).

g. Tests shall be conducted using appropriately sized random statistical samples or full population testing for the record to floor checks.

h. An untested Government-owned item adjacent to an item tested during the record to floor checks shall be used to perform the floor to record check. The PA should be careful to consistently check for a floor to record check item in the same position in relation to the randomly selected record to floor check item. For example the PA could establish that they will always check the Government-owned item closest to the right-hand side of the randomly selected record to floor check item.

i. When a contractor is authorized to use a "receipt and issue" recordkeeping system, the PA shall review receipt and issue records to determine whether received items have been issued directly to the floor for consumption, whether

items are consumed in a timely manner, and whether unconsumed items or items that will not be consumed for a period of time exceeding the contractor's plan are placed on record in a perpetual inventory system.

j. In accordance with NFS clause 1852.223-76, Federal automotive contractors who are authorized the use of Government-provided vehicles are required to report into the Federal Automotive Statistical Tool (FAST) annually. The PA shall ensure that FAST records are up to date and complete.

(1) The PA should consult the NASA Transportation Manager, Headquarters Logistics Division, to obtain an assessment of whether prior year reports were submitted on time and accurately.

5.6.6.4 Evaluation of Physical Inventory

a. FAR 52.245-1(f)(iv) requires contractors to perform, record, and report the results of physical inventories. Physical inventories are essential in the validation of records, transactions, and practices. Physical inventories provide insight into the overall effectiveness of management controls employed by the contractor over GP. As such, they are an equally essential part of the Government's oversight and review processes. Further, NFS clause at 1852.245-78, Physical Inventory of Government Property, requires contractors to validate the existence of items valued \$100,000 or above on an annual basis.

b. The PA shall evaluate the contractor's physical inventory execution to determine whether the inventory is being scheduled, performed, recorded, and reported in accordance with the contractor's property management practices, standards, plans, or systems. The basic objective is to determine the effectiveness of the physical inventory process, physically locate and count GP, compare the results to the records, post the findings, reconcile the inventory, make physical inventory adjustments, report the adjustments and loss to the PA, and perform a physical inventory at contract completion, termination, or when otherwise required.

c. The PA has the option of performing audits of the contractor's physical inventories either during the performance of the inventory or subsequent to its completion. In either case, the tests shall evidence performance of the physical inventory at the time(s) stated in the contractor's PMS, physical counts of selected items, verification of the entries on count slips, comparisons with records, preparation of documents necessary for any adjustments required, internal contractor approval of adjustments, and the referral of lists of all recorded adjustments to the PA. Populations and their respective samples may be drawn from physical inventory documentation such as count slips, inventory tickets, computer printouts of automated inventories, or similar items.

d. To ensure that the contractor's inventory practices encompass all property under contract, the PA shall select an appropriate sample of items from the contractor's work areas, e.g., storage, manufacturing, and fabrication, to determine if items within those areas have been verified during the inventory process.

e. The PA shall review an appropriate stratified sample or stratified population of the contractor's records to determine whether items valued over \$100,000 have been verified on an annual basis in accordance with the requirements of NFS clause at 1852.245-78. Special attention should be given to any instance where an item was not found to determine whether the discrepancy was reported in a timely manner according to the requirements of the Government Property clause and whether the associated records were updated.

5.6.6.5 Evaluation of Subcontractor Control

a. Though it is not a widespread practice for commercial companies to provide their assets to their vendors, it is occasionally within the Government's best interest to provide property to contractors performing Government contracts. When a subcontractor requires property to perform duties associated with the prime contract, prime contractors may provide that GP to subcontractors. As the Government does not have "privity" into the relationships between the prime contractor and subcontractors, the prime contractor is responsible for the management of GP in the possession of its subcontractors, in accordance with FAR 52.245-1(f)(1)(v).

b. The PA shall ensure the prime contractor has established a process to manage its subcontractors who have been provided GP. The basic objective in testing subcontractor control is to ensure that the contractor has a process for properly applying the GP clauses in its subcontracting processes and providing the required information in the subcontracting process, and then to ensure sufficiency of the subcontractor's Property Management System to protect the Government's interests in the GP.

c. The PA should be aware of all subcontracts, purchase orders, interdivisional work authorizations (IDWAs), inter-organization transfers (IOTs), etc. that furnish GP or authorize the acquisition of items that become GP. Applicable documents to review as part of this process may include purchase orders/subcontracts with GP, contracts and associated modifications, and correspondence relating to GP provided to subcontractors, flow down of risk of loss and control of GP, and supporting correspondence and reports. The population for this process and their respective samples can be taken from these documents.

d. When subcontractor acquisitions of property will result in Government-titled property in accordance with the title provisions of the property clause, the PA shall test to ensure that the prime contractor requested approval of the CO for the acquisition in accordance with NFS clause at 1852.245-70.

(1) The PA also shall test to ensure that the appropriate title provisions of the Government Property clause are included in subcontracts.

e. The PA should be aware that there are numerous different contractual relationships between a prime contractor and a subcontractor as well as differing relationships between a contractor and its alternate locations. A determination should be made as to the type of contractual relationship, i.e., whether the business relationship is that of a prime contractor with a subcontractor or as an alternate location as a physical extension/location of the contractor. Where the PA is unable to ascertain the type of relationship, the PA shall request clarification from the contractor as to the relationship. The contractor is in the best position to provide this information to the PA.

f. When the prime contractor has retained property management responsibilities for its subcontractors, the PA shall ensure that adequate processes have been established in the contractor's Property Management System. Areas within the subcontract process that are of critical concern are:

(1) The flow down of proper clauses and provisions, e.g., FAR 52.245-1(b)(3).

(2) The adequacy of the contractor's system of surveillance incorporated in its PCS and applied throughout the life of the subcontract.

(3) The adequacy of the contractor's surveillance documentation of the subcontractor's PMSA, to include but not limited to types, quantities, and dollar value of property; methods of performing the analysis; subcontractor performance and reporting of physical inventories; evaluation criteria; and conclusions, including disclosure, follow-up, and final resolution of deficiencies.

g. Property administration may have been delegated through the use of a support property administration delegation requested either by the prime contractor or the Government PA. Where the prime contractor has retained the oversight process, the PA shall, as part of their PMSA, perform an analysis of the contractor's oversight of their subcontractors in accordance with its Property Management System.

h. Where a support property administration delegation has been agreed to, in writing, by the prime contractor and the prime's Government PA, the cognizant PA for the subcontractor shall perform a PCSA on that subcontractor, including the GP accountable under the subcontract delegated for property administration and provide their findings to the Prime's PA promptly upon completion of the PCSA.

i. Support property administration delegations may also be used when work is done under the prime contract at alternate locations of the prime contractor. In this instance the prime contractor's permission is not required. The supporting Government PA shall provide their findings to the prime's Government PA promptly upon completion of the PCSA.

5.6.6.6 Evaluation of Utilization

a. The Government Property clause at FAR 52.245-1(f)(viii) combines five distinct processes under the outcome of utilization. These include use, consumption, movement, storage, and reporting of property no longer required for performance. PAs need to be aware that, though these distinct processes are combined into a single FAR clause outcome, the processes have different populations and different criteria that are subject to review. Within this NPR, distinct evaluation requirements are identified for each of these processes.

b. During evaluation of utilization, the PA should be particularly concerned with any unauthorized use, use in excess of allowable time on non-Government work, improper recording of actual use, and failure to maintain any required utilization records. There shall be a contractual requirement or justification for retention for each item in the possession of the contractor. PAs should be aware that the utilization levels of property may be affected by the purpose of the contract, i.e., overhaul and maintenance (O&M), production, research and development (R&D); the type of testing the item was used for; continuous versus final acceptance; and the reason the property was provided, e.g., as a model or for configuration standards.

c. Contractors are required by the property clause to restrict use of GP exclusively for the performance of the contract under which the property was provided. Use on other Government contracts may be allowed after receipt of noninterference use approval from the CO for the providing contract. Approval should also be garnered from the CO responsible for the using contract. PAs shall check to ensure that any identified use on other contracts has been appropriately authorized.

d. Conversion of public property to private use without authority is a criminal act under 18 U.S.C. pt. 641. PAs shall review contractor use records and operations to determine whether property is being used exclusively for authorized purposes. When the PA suspects that property is being used for unauthorized purposes, the PA should immediately report such conditions to the NASA Inspector General for further investigation and should request advice from the Inspector General on whether and to what extent the PMSA should continue.

e. Contractors who identify a commercial or private use for GP shall obtain the approval of the providing CO under FAR clause at 52.245-9, Use and Charges clause and comply with the CO's direction.

- f. PAs shall review contractor records to ensure they have obtained the CO's advanced approval of commercial use and that the contractor's plans, practices, procedures, or systems provide accurate means to collect use data, for example, hours used for performance of commercial work versus hours used for performance of Government work.
- g. Contractors shall have processes and standards to determine when property is no longer required for performance of the providing contract and to report that property for disposition in accordance with the FAR Government Property clause and FAR pt. 45.6.
- h. The PA shall evaluate contractor records of use and observe the use of property to determine whether property that is no longer required for contract performance has been reported for disposition in accordance with the contractor's processes and standards. This portion of the utilization evaluation applies only to nonconsumable types of GP, i.e., equipment, special test equipment (STE), durable special tooling (ST), and real property.
- i. The PA shall review the activity level of the items sampled to identify idle or underutilized GP.
- (1) Where the GP does not reflect current or recent use, the PA shall request the contractor to provide justification that the GP is required for planned or "in process" continuing contract efforts.
- (2) If not justified for retention, inactive GP should be declared excess.
- j. The population for utilization evaluation should be selected from all utilization records, either manual or automated, and should be stratified by property type with common utilization characteristics. The PA shall use sound judgment in determining the populations selected for testing the utilization process. If the contractor uses the same process for tracking the utilization of equipment, STE, and ST, it would be appropriate to use the records of all equipment, ST, and STE as the population of utilization. If a different process is used to track the utilization of the various classes of GP, then separate populations should be used for this test rather than combining all equipment, ST, and STE.
- k. PAs shall conduct specific reviews of vehicles and related equipment, such as trailers and material handling equipment, as part of the PMSA based on special contract provisions. Such reviews should be made to ensure Government-owned vehicles are:
- (1) Approved and justified in accordance with contract requirements. Specific approval requirements exist for vehicles in NFS 1851.2 and NPR 6200.1.
- (2) Subject to controls in the contractor's procedures to prevent unauthorized home-to-work or work-to-home use of vehicles.
- (3) Utilized in accordance with the justification provided at acquisition. If underutilization is identified, the PA should further report that underutilization to the Center transportation officer. If the justification for acquisition is insufficient to determine level of use, the PA should recommend that the CO require a more detailed justification of the vehicle's projected use.
- l. The PA should review the contractor's processes for responding to contract completions, terminations, modifications, and engineering changes to identify property no longer required for contract performance.
- m. When GP will be retained beyond original period of performance or termination, the PA shall ask the CO to provide documentation of contract extension or award of a new storage contract.
- n. When property is to be transferred between a complete contract and a follow-on contract, authorization shall be in writing in the complete contract. The complete contract cannot be closed for property or contract administration until the GP is either transferred to the follow-on contract or disposition is directed by a PICO or the NASA PDO and completed by the contractor.

5.6.6.7 Evaluation of Storage

- a. Contractors are required to properly store property under their stewardship. The PA shall ensure that the contractor has established a proper method of storage for all GP in accordance with FAR 52.245-1(f)(1)(viii). The basic objective in testing storage is to determine the contractor's effectiveness in controlling, protecting, and preserving GP while in storage.
- b. Assessing the effectiveness of contractor storage practices is normally accomplished by visual inspections of GP storage areas. Special inspections may be made of some or all storage areas or review may be made in conjunction with verification of location or control processes.
- (1) The population for this process shall consist of all locations where GP is being stored.
- (2) Evaluations shall include the overall safeguarding aspects, review of housekeeping, temperature and static control (if required), physical security, and preservation of GP within storage areas, e.g., storage areas are clean and well organized with access strictly limited to authorized personnel and with processes established to appropriately preserve GP in storage.
- c. The PA should review storage records to compare the date or timeframes that assets were originally placed into

storage with completion dates for the accountable contract to determine whether the contract is active or complete. If GP is discovered in storage and the contract is complete, the GP should have been declared excess and processed through the appropriate disposition process.

d. Preservation processes should ensure that materials stored indoors or outdoors are protected from corrosion or other deteriorating conditions. Hazardous material and other sensitive GP may require more stringent storage processes. Where appropriate, the review of special storage areas should be coordinated with other Government or contractor technical functional specialists, including safety, security, quality assurance, environmental, or production personnel.

5.6.6.8 Evaluation of Movement

a. The FAR Government Property clause requires contractors to properly move GP under their stewardship. The PA shall ensure the contractor has established effective processes for movement of GP while in use, into and out of storage, or in transit. The basic objective in testing movement is to ensure that GP is moved under the appropriate authority and with the appropriate documentation, adequate protection is provided during movement, and location changes are promptly posted to records.

b. Assessing the effectiveness of the contractor's process for protection of GP in use or in transit is generally accomplished by day-to-day observations of contractor actions. All Government personnel that have visibility of contractor operations should monitor contractor protection of GP being prepared for or while in transit.

c. The population for this review may consist of all issue slips, shipping tickets, location change orders, custodial transfer documents, maintenance work orders that require the movement of GP, routers/travelers, and other similar documents and shall be for the time period of one year or back to the last PMSA, whichever is less. This process' verification may also be supplemented by information obtained from reports of loss of GP when the item was damaged during movement, either internal or external. The overall effectiveness of the process may be assessed based on the frequency and magnitude of loss of GP while property is in movement. Where losses are frequent and due to movement-related circumstances, a systemic deficiency may exist. 5.6.6.9 Evaluation of Consumption

a. The PA shall evaluate the contractor's consumption of GP to ensure reasonable levels of inventory are on hand. Excessive quantities or out of stock conditions should be noted. Random statistical samples of records of item quantity and supporting consumption records should be used for this purpose.

b. The PA shall determine whether quantities of material inventory on hand are reasonable based on blueprints, production schedules, parts lists, etc. The PA should consider other factors, such as supplier's bulk purchase requirements, when they are relevant to the analysis.

c. When consumption analysis or other evidence shows that costs charged to Government contracts do not appear to be reasonable, allowable, or allocable, per the requirements in FAR pt. 31, Cost Principles, the Allowable Cost and Payment clause at FAR 52.216-7, and the Cost Accounting Standards (CAS), the PA shall determine the extent of the deficiencies.

(1) If items appear to be unallowable, unreasonable, or not allocable, the PA shall notify the CO for appropriate action.

(a) The notice shall include proper documentation of findings serving as the basis to suspect an unallowable, unreasonable, or not allocable cost.

(b) If it appears that a systemic problem exists, the PA notice to the CO may recommend a DCAA audit for possible impact to the contractor disclosure statement.

d. The PA shall review the contractor's records to ensure that the value of items issued from stock for use in contract work are incorporated into the costs of the item either constructed, manufactured, or kitted.

(1) The item resulting from the consumption process should be valued according to consistently applied, sound accounting practices.

(2) Items undergoing these processes are considered to be work in progress. Items should be considered a new item when complete, whether returned to stock in an altered form or delivered.

(3) New items that are returned to stock should be entered into the contractor's records with appropriate value and quantities.

5.6.6.10 Evaluation of Reporting

a. FAR 52.245-1(f) requires contractors to have a process to properly prepare and submit reports related to GP under their stewardship. VCS, ILPSs and CCPs provide significant guidance on reporting processes and typical metrics. Reports required by the Government Property clause include but are not limited to reports of discrepancies, loss, physical inventory results, audits and self-assessments, corrective actions, and other property-related reports, as directed by the CO. NFS clause at 1852.245-73 also requires submission reports of NASA Property in the

Custody of contractors, NASA Form 1018. NASA encourages submission of these reports through NESS.

b. The PA shall test the contractor's processes to determine whether they meet contractual requirements for preparing and submitting reports of GP. This test typically involves a review of the full population of contractually required reports, either manual reports or electronic versions, based upon the contractor's process and which covers the time period of one year or subsequent to the last PMSA, whichever is less. Where the PA chooses to treat this in a combined fashion, all of these reports may be viewed as one population. Care should be taken in the evaluation process as the timeframes, forms, or data requirements for reporting these various actions may differ depending upon the contractor's PMS and the type of report required.

c. In lieu of testing reports as a separate group or outcome, the PA may evaluate this process in any other applicable process that requires the creating of a report, e.g., reports of discrepancies may be evaluated by the PA when performing the audit of the receiving process; physical inventory reports may be evaluated when performing the audit of the physical inventory process; loss reports may be evaluated by the PA when performing the audit of the relief of responsibility/liability process. When these reports are tested under the related process, the PA shall ensure that a review is performed on any reports that were not addressed under the other processes.

d. Special attention should be given to contract compliance for those contractors required to submit the annual report of NASA Property in the Custody of Contractors, in accordance with NFS clause at 1852.245-73, Financial Reporting of NASA Property in the Custody of Contractors. Contractors shall be evaluated on the timeliness of correct submissions. As this report is pivotal to the completion of NASA's financial reports, timeliness and correctness are equally important. Evaluation of the contractor's ability to generate quality data may be based more on the contractor's performance in the records, acquisition, and disposition segments of the property system than on the report itself. Failure to maintain accurate records or properly record addition and deletion transactions would obviate the contractor's ability to submit an accurate report.

5.6.6.11 Evaluation of Maintenance

a. Contractors are required to properly maintain property in their stewardship. The PA shall ensure the contractor has established and follows a process for properly maintaining GP in accordance with FAR 52.245-1(f)(1)(ix). The basic objective in testing the process of maintenance is to ensure that the contractor's system of maintenance includes disclosing the need for and the performing of routine, normal preventive maintenance and unscheduled maintenance and contains a process for disclosing and reporting to the Government the need for capital-type rehabilitation and obtaining the CO's approval, prior to commencement of work.

b. The population for analysis may be selected from all items that require maintenance as part of their normal operation or stratified by GP type requiring varying levels of maintenance actions, i.e., equipment, STE, ST, and real property. Maintenance actions and records shall be reviewed to determine that they have been performed and recorded in accordance with the maintenance standards and plans in the contractor's Property Management System.

(1) Maintenance and repair records shall be analyzed to determine the cause of breakdown in order to ascertain the possibility of inadequate preventive or routine maintenance.

(2) The PA may request assistance from other technical specialists, e.g., Quality Assurance Representatives, in the review of this process. c. Contractors may also be contractually required to comply with NASA technical manuals and orders when performing work on items of GP. PAs shall familiarize themselves with and become knowledgeable of these requirements and obtain assistance from the appropriate Government technical personnel, when needed.

5.6.6.12 Evaluation of Disposition

a. The PA shall evaluate the contractor's property practices to ensure that the contractor reports excess GP in accordance with FAR 52.245-1(j), any other terms and conditions of the contract, any applicable law, and the contractor's Property Management System. The basic objective of testing disposition is to determine the effectiveness of and compliance with the disposition process on screening for reutilization of property in support of other Government contracts; identifying property that is excess to the requirements of the instant contract; submission of inventory schedules to the appropriate Government representative, generally the PICO; obtaining the proper authority for transfer or disposal of excess and surplus GP; and reviewing the disposal of GP in accordance with Government direction or under an adequate scrap process.

b. This process is normally reviewed by selecting a random statistical sample from the population of disposal records, including plant clearance cases, transfers; scrap tickets, Government Furnished Material return documents, and other appropriate documents. These records should reflect in-house screening for reutilization and proper authority for disposal.

(1) The PA shall ensure the contractor has a system for properly crediting the Government with the proceeds realized from the sale of assets.

(2) If assistance is needed in verifying the crediting of these proceeds, the PA shall request, through the CO responsible for administration of the contract, that a review be conducted by the cognizant audit authority.

c. The PA shall evaluate the contractor's scrap procedures.

(1) Contractors' procedures may allow for the disposition of common scrap through a single scrap disposition process. The PA should review the process to determine whether or not it is capable of fairly identifying the ratios between scrap generated from Government work and that generated by the contractor's other work.

(2) The PA may select a random statistical sample of the population of all property that has been processed through the contractor's scrap procedure for the past year or subsequent to the last system audit.

(3) The PA shall review the process and the documentation to ensure that the items processed through the contractor's scrap procedure have been verified as being in "scrap" condition by an appropriate Government representative.

(4) The PA shall review the contractor's process for properly crediting the Government with the proceeds realized from the sale of scrap through scrap procedures.

(5) If assistance is needed in verifying the crediting of these proceeds, a request shall be made through the CO administering the contract to the cognizant DCAA auditor.

d. The PA shall evaluate the contractor's procedures to establish whether they have acted under appropriate authority for disposition.

(1) The PA shall determine that the actual disposition of GP is based on contractual or other CO, PICO, or PDO authorization.

(2) When all GP has been dispositioned through the plant clearance process, the PA may select samples from inventory schedules or other plant clearance documentation to determine that actions taken were properly authorized.

(3) If the disposal action was unauthorized, procedures for reporting loss shall be required before a determination to relieve the contractor of responsibility may be considered.

(4) The PA shall review the contractor's records and practices to ensure that they obtain any required CO consent to disposition property provided under the FAR clause at 52.245-2; that disposition takes place only after notification to the CO; that disposition is carried out by the contractor; and that property is not returned to the Government for disposition.

5.6.6.13 Evaluation of Closeout

a. The PA shall evaluate the contractor's methods of ensuring contract closeout actions related to property are completed in an accurate, effective, and timely manner in accordance with FAR 52.245-1(f)(1)(x).

b. This process may be analyzed during the PA's final review of contractor closeout actions or over a period of time. Subjective evaluation may include reviewing the timeliness of initiation and submission and the adequacy of the contractor's method for tracking contracts nearing completion to close out affected contracts. Objective evaluations may include verifying required authorizations for property transfer, completed disposition actions, completion of liability determinations, and completions of contractually required reports, including closeout forms/correspondence with zero dollars remaining.

c. The PA should review for any completed contracts for which formal contract closeout actions have not been taken or reported.

5.6.6.14 Evaluation of Loss/Relief of Stewardship Responsibility

a. Prior to conducting the PMSA, the PA shall review reports of loss previously submitted and ensure that the reports have sufficient documentation for reason for loss; include steps to be taken to prevent recurrence; include the data elements required by the Government Property clause; and include all supporting documentation.

b. The PA shall note any incidence of failure to report loss in accordance with the requirements of the Government Property clause. Particular attention should be paid to losses discovered as a result of the contractor's physical inventory. Timing between the completion of inventory and the submission of any report should be considered.

5.6.6.15 Evaluation of Overall Property Management

a. The PA shall determine the effectiveness of the contractor's Property Management System, seen as a whole and identify possible systemic impacts of deficiencies identified within multiple segments of the PMSA. As such, this segment should provide a more holistic picture of the contractor's PMSA. An additional objective of this audit is to provide a management overview that identifies causal factors that may contribute to deficiencies in other processes. In their audit of the overall Property Management System segment, the PA should:

(1) Evaluate the property management activity's (PMA's) location within the organizational hierarchy.

- (2) Establish whether the PMA is sufficiently independent from operational activities.
 - (3) Evaluate the authority of the PMA to develop, disseminate, and enforce property management policies, standards, practices, systems, and procedures.
 - (4) Consider whether the PMA is sufficiently resourced to execute the requirements of the contract, execute the procedures and practices proposed by the contractor, and meet any performance standards. It is important to consider the balance between cost of and the effectiveness of PMA operations.
 - (5) Evaluate the contractor's self-assessment processes to determine the authority of the PMA to identify, report, and correct deficiencies in performance both within the PMA itself and within production, program, or project activities.
 - (6) Identify any instance in which the contractor's management failed to correct identified deficiencies; failed to establish and implement adequate plans, standards, practices, or procedures; or failed to provide protection for GP adequate to prevent its loss.
 - (7) Evaluate the contractor's self-assessment control environment, as detailed in their procedures.
- b. The PA's audit of this process segment should utilize the products of the contractor's assessment activities to direct attention to areas of concern and to support tests and findings. Contractor self-assessment shall not be used by the PA as a substitute for appropriate, independent Government oversight and testing.

5.7 Documentation of Audits

5.7.1 Documentation of Evaluations

5.7.1.1 The PA shall fully document the processes used to test, sample sizes, and populations of each segment tested.

5.7.1.2 The PA shall provide the results of the tests for each segment audited.

a. The results shall indicate whether the contractor performed satisfactorily, unsatisfactorily, or partially satisfactorily for that segment.

5.7.1.3 The PA shall provide a summary of any actions taken by the contractor during the performance of the audit to ameliorate any risks or to address any findings related to the audit.

a. The summary shall indicate whether the actions were sufficient to restore any unsatisfactory or partially satisfactory segments or outcomes to satisfactory status or whether further action is required.

5.7.2 Preparation of Audit Report

5.7.2.1 The PA shall prepare an audit report which shall contain the following content at minimum:

a. An executive summary that delineates and summarizes significant findings and recommendations, as well as the contractor's responsiveness and cooperation in completion of the audit.

b. Details of findings and recommendations by segment.

c. Details of all tests to fully support any subsequent findings and recommendations. Descriptions of test samples and procedures, along with documentation of detail supporting findings, produced for each applicable segment or outcome of the property system.

d. A full description of any situations requiring corrective action.

e. A requirement for the contractor to submit a response or to complete all actions required to correct deficiencies identified in the report, specifying an overall completion date in accordance with FAR 45.105 (b).

f. A requirement for the contractor to provide a schedule for completion of individual remedial actions within the overall timeframe.

5.7.2.2 With the contractor's consent, the report may record and acknowledge any processes, standards, or practices that exceed those typically required by voluntary consensus standards or that exceed CCPs and that prove to be cost effective.

a. The report shall recommend contractor documentation and dissemination of such processes, standards, and practices as examples of potential ILPSs.

5.7.3 Notification of Authorities

5.7.3.1 The PA shall notify the CO and the Center IPO of any findings that may result in an overall determination of system inadequacy or failure to comply with contract requirements.

5.7.4 Receipt of Contractor Comments, Actions, and Plans

5.7.4.1 The PA shall incorporate contractor comments, actions, and plans into the final report.

5.7.4.2 Contractor responses should be evaluated to determine any corrective actions that may have been taken subsequent to the completion of the audit. If the contractor has taken corrective actions, the PA shall evaluate those actions and determine if they are responsive to the findings and recommendations provided in any interim or draft report.

5.7.4.3 Should the corrective actions be completed, the PA shall note their completion in the final report.

5.7.5 Preparation of Files for PMSAs Conducted on Contractor Premises

5.7.5.1 The PA shall acquire a separate file for each PMSA and prepare the file as follows:

- a. Label the file in accordance with records management guidance, noting the contractor name, cage code, and date of review completion on the label.
- b. Correspondence advising the contractor of the scheduled PMSA, any associated response from the contractor, and documentation of the entrance conference shall be placed in the first section of the file.
- c. Documentation of the PA's determination of whether or not particular segments of a property system should be reviewed shall be placed in the second section of the file.
- d. Findings of tested property segments shall be placed in the third and fourth sections of the file.
- e. Correspondence with the contractor regarding the results of the audit along with the final report, the contractor's response, and the exit conference shall be filed in the fifth section of the file.
- f. Correspondence related to actions subsequent to the final report shall be filed in the sixth section of the file.
- g. Supporting documentation may be maintained in a separate folder and indexed to allow easy reference between the supporting documentation and the segment or segments tested.
- h. Documentation of a desk audit may be filed in a single folder with the findings on one side and any associated correspondence and supporting documentation on the opposite side.

5.7.6 Recording in NESS

5.7.6.1 Based on the audit report, the IPO, or their designee, shall record the results of the PMSA along with any significant findings, either positive or negative, in the appropriate records in NESS.

5.7.6.2 IPOs, or their designees, shall upload copies of all PMSAs in portable document format (.pdf) when conducted by NASA or received from DCMA.

5.8 Loss of Government Property

5.8.1 Receipt of Contractor Reports

5.8.1.1 PAs shall establish a file for all reports of loss within the particular contract property file.

5.8.1.2 IPOs shall establish files for all reports of loss for contracts administered by other agencies within the particular contract property file.

5.8.2 Evaluation of Contractor Reports

5.8.2.1 Industrial Property Management Specialists and/or IPOs shall review the Annual Reports of NASA Property in the Custody of Contractors to determine whether or not the losses reported for the period are reflected in the documents received throughout the year.

5.8.3 PA Authorities

5.8.3.1 PAs shall review each incidence of loss. Based on the requirements of the contract, and the circumstances of the loss, when appropriate, FAR 45.105(d) authorizes PAs to grant relief from responsibility to the contractor.

5.8.3.2 When the contract language or the circumstances of the loss, e.g., managerial neglect, fraud, or abuse, demand it, the PA shall recommend to the CO that the contractor be held responsible for the loss.

5.8.4 Decisions to Hold Contractors Responsible

5.8.4.1 In accordance with NFS 1845.104, the CO, after consideration of the PA's recommendation and the overall circumstances of the contract, is required to render a decision on whether to hold contractors responsible and liable for property in their custody or whether to take an alternate action to protect the Government's interests in its property.

5.8.4.2 The PA shall follow up with the CO to obtain information, including, when available, documentation, regarding the CO's decision under section 5.8.4.1.

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